



THE INTERIM

A Monthly Newsletter of the Montana Legislative Branch

Volume XV, No. 14

Helena, Montana

July 2006

IN THIS ISSUE

ECONOMIC AFFAIRS COMMITTEE	1
LEGISLATIVE FINANCE COMMITTEE	1
EDUCATION AND LOCAL GOVERNMENT COMMITTEE ..	4
ENVIRONMENTAL QUALITY COUNCIL	6
CHILDREN, FAMILIES, HEALTH, AND HUMAN SERVICES COMMITTEE	6
LEGISLATIVE COUNCIL	6
MONTANA LEGISLATIVE REFERENCE CENTER	7
THE BACK PAGE	11
LITTLE REPOSE IN PUBLIC RETIREMENT	11
INTERIM CALENDAR	18

ECONOMIC AFFAIRS COMMITTEE

Decision-making time...The Economic Affairs Committee will decide at its July 14 meeting whether to move forward with committee-proposed legislation on regulating the collection and display of social security numbers as well as other bill drafts related to preventing or alleviating the impact of identity theft. The committee also will review bill drafts affecting the creation of new licensing boards at the meeting, which will start at 8:30 a.m. in Room 102 of the Capitol.

At the committee's May 12 meeting members debated how to handle the issue of social security number use and display by state and local governments. At the July 14 meeting the committee will review responses to a letter mailed earlier this year to the major elected officials, the Commissioner of Higher Education, the Montana Association of Counties, and the Montana League of Cities and Towns. The responses indicate how government uses social security numbers and whether the use is required by statute.

Sunrise, sunset...The subcommittee studying licensing boards will present to the entire committee one or more proposals affecting the creation of new licensing boards. Montana had "sunrise" statutes regulating the creation of new boards from 1987 to 1993. The proposed legislation seeks to address concerns raised with the earlier sunrise provisions, including a disincentive to undergo the process if the same result could occur by going directly to the Legislature with proposed legislation. The subcommittee also has indicated that a process may be needed to alert licensing boards to the merits of combining with another board or potentially becoming a program rather than a board if licensing costs appear to be unreasonable.

Statutory review...The Governor's Office of Economic Development will present its legislative proposals for the committee's review at the July meeting. Other state agencies that the committee monitors will present their proposals at the committee's final meeting, scheduled for Sept. 11 and 12. For more information, or to view a preliminary agenda, visit the committee's website or contact Pat Murdo, committee staff, at (406) 444-3594 or pmurdo@mt.gov.

LEGISLATIVE FINANCE COMMITTEE

LFC June Meeting...The Legislative Finance Committee met on June 8 and 9. The agenda and various reports are available on the Legislative Fiscal Division website at <http://www.leg.mt.gov/css/fiscal/default.asp>. For more information about the committee contact Clayton Schenck at cschenck@mt.gov or (406) 444-2986. The committee heard reports on various policy issues and fiscal concerns. Highlights of the meeting are reported below.

Resource indemnity trust statutes and policies: subcommittee recommendations...The Resource Indemnity Trust (RIT) subcommittee delivered its recommendations to the full committee. The subcommittee recommendations provide some relief to the issues identified in HJR 36. The recommendation includes reallocation of Resource Indemnity Ground Water Assessment taxes to eliminate interfund transfers, consolidation of grant and loan programs, elimination of two funds

THE INTERIM

Montana Legislative Services Division
Room 110, State Capitol
PO Box 201706
Helena, MT 59620-1706
Phone: (406) 444-3064
Fax: (406) 444-3036

THE INTERIM is a monthly newsletter that reports on the interim activities of legislative committees, including the Legislative Council, the Environmental Quality Council, the Legislative Finance Committee, the Legislative Audit Committee, and interim legislative committees and subcommittees staffed by the Legislative Services Division. Information about the committees, including meeting schedules, agendas, and reports, is found at <http://www.leg.mt.gov>. Follow the "Committees" link or the "Interims" link to the relevant committee. The newsletter is posted on the legislative branch website on the first of each month (follow the "Publications" link).

A Publication of  **Legislative
Services
Division**

from the RIT matrix and statutory changes to clarify the use of RIT-related funds. Draft legislation to incorporate these changes has been requested. The subcommittee also identified areas that required additional analysis. These include requests for performance audits on the Orphan Share Program in the Department of Environmental Quality (DEQ) and the Future Fisheries program in the Department of Fish, Wildlife and Parks. The subcommittee also requested that staff continue looking at DEQ fees and the funding of the Natural Resource Information System. For more information on HJR 36 or the Resource Indemnity Trust, contact Barbara Smith at basmith@mt.gov or at (406) 444-5347.

LRBP funding interim study: subcommittee recommendations... The LFC Long-Range Building Program (LRBP) Cash Program Funding subcommittee, charged with the development of new funding methodologies for the LRBP, met in a teleconference on May 19. Subcommittee members--Sens. Mike Cooney (chairman) and Rick Laible and Reps. Hawk and Gary Branae--identified two issues that must be addressed. First, the LRBP has been inadequately funded for numerous years. Because funding levels have been too low, major maintenance problems have been deferred into the future, creating a significant deferred maintenance backlog. Without some form of increased funding in the LRBP, the condition of the state's assets (the buildings) will continue to deteriorate, as the deferred maintenance backlog continues to grow.

In the teleconference meeting, the subcommittee members approved two funding plans to present to the LFC for consideration and initial approval. One plan would impose a rental surcharge to fund ongoing maintenance needs, and the other plan would create a future maintenance endowment trust to fund a reduction in the deferred maintenance backlog. The combination of the two funding concepts would adequately fund the LRBP, but the two plans would come with a new and significant cost to the general fund. The LFC approved the bill draft requests for both plans. For further information, contact Cathy Duncan at cduncan@mt.gov or at (406) 444-4580.

Reliance on federal funds: issues/impacts... LFD staff presented the second of three reports planned on this topic. This report focuses on recent and future trends in federal spending in Montana, and what it may mean for budget development in the 2007 session. It does this through first identifying the following:

- the largest uses of federal funds;
- the areas with the greatest risk to the state if federal funds change ("theoretical" risk); and
- the areas with the greatest risk of change due to action already taken or proposed ("practical" risk).

Further work will be done, primarily in conjunction with the budget analysis, of particular impacts on Montana operations

as they become clearer. In addition, an offshoot of this effort is the creation of a database of the largest federal funds used by state government, which is discussed later in the report. Standardized reports on the largest federal funds used in Montana will be created from this database and made available for use by the Legislature and other interested parties. The two completed reports are available on the LFD website under the December 2005 and June 2006 meetings. For further information, contact Taryn Purdy at tpurdy@mt.gov or (406) 444-5383.

Performance management: new proposal process... The new proposal evaluation process was adopted by the LFC for implementation in the upcoming budget analysis. The purpose of the process is to identify new proposals that add or significantly expand activities of state government, provide critical information for the Legislature to consider in determining whether to fund the activity, and provide measurements to determine success and potential continuation. The process is designed to evaluate, monitor, and analyze new programs throughout the budgeting and implementation process through the interim into the next budgeting cycle. Legislative Fiscal Division staff will streamline information collection and analysis in order to provide legislators information regarding the need for the program, goals and objectives, program monitoring, number and type of FTEs, revenue sources, identification of obstacles to implementation, and an evaluation of the risk to the state if the program is not implemented. This information will be documented in the budget analysis and fiscal report published by the LFD. For additional information, contact Barbara Smith at basmith@mt.gov or at (406) 444-5347.

Budget pressure points: agency appropriations transfer request... The LFC heard a staff report on the supplemental appropriation transfer request for the Department of Public Health and Human Services. The report summarized the:

- Request to transfer up to \$9.0 million general fund from FY 2007 to FY 2006.
- DPHHS plan to reduce expenditures in FY 2007, including a Medicaid provider rate reduction of up to 15 percent across the board effective April 1, 2007 in order to maintain FY 2007 spending within appropriation levels.
- Other potential actions to reduce general fund spending identified by legislative staff that center primarily on using up to \$3.5 million in excess state special revenue in tobacco tax and tobacco settlement state special revenue appropriations statutorily authorized to offset general fund.
- LFD staff estimates that the total FY 2007 general fund shortfall could be an additional \$11 million or up to \$18 million if the Legislature directed DPHHS to not implement provider rate reductions.
 - DPHHS staff estimated that the total shortfall could be as much as \$73 million if elements of the Deficit Reduction Act of 2005 and the 2006 budget proposed by

President Bush are enacted.

- Issues raised by a legislative staff legal opinion including:
 - The statutory requirement to use non-general fund prior to using general fund.
 - Statutory authority that would allow the executive to augment tobacco related state special revenue appropriations with excess authority from other state special revenue appropriations and spend down cash balances in the tobacco related accounts.

The LFC decided to include the following items in its letter to the governor reporting on its review of the DPHHS supplemental appropriation transfer request:

- The request meets all statutory criteria.
- The LFC requests that it be informed of the final supplemental appropriation transfer amount for DPHHS on July 15.
- The LFC urges the Office of Budget and Program Planning to comply with section 17-2-108, MCA, by offsetting general fund expenditures and appropriations with state special revenue, in particular Health and Medicaid Initiatives Account revenues and appropriations, for uses allowed by statutes governing these funds.
- The LFC recognizes an additional supplemental appropriation may be requested by OBPP if the funding needed by DPHHS is higher than anticipated. In the event of an additional appropriation request OBPP will need to submit a new appropriation transfer request and a new expenditure reduction plan to the LFC.
- The LFC has concerns about the proposed provider rate reductions, and urges that they be implemented at the minimum level possible and only as a last resort.

For more information, contact Lois Steinbeck at lsteinbeck@mt.gov or at (406) 444-5391.

The LFC also took action on the request by the Department of Corrections to move appropriation authority from FY 2007 to FY 2006. The LFC determined that the request did not meet statutory criteria because it was not necessary due to the presence of a biennial appropriation for secure care services that could be utilized. Additionally, the LFC expressed concerns that the supplemental mitigation plan submitted by the department as required in statute included statements that the plan was not realistic or achievable. For more information, contact Pat Gervais at pgervais@mt.gov or (406) 444-2986.

Finally, the LFC approved a request by the Department of Natural Resources and Conservation to transfer \$1 million general fund authority within the Water Resources Division from FY 2007 to FY 2006. Subsequently, this authority will be transferred to the Forestry Division through a program transfer. The funding will be used to

continue payment on FY 2006 fire suppression costs. The \$1 million is in addition to the \$4.5 million supplemental transfer that occurred in December 2005 and March 2006 for the same purpose, for a total of \$5.7 million. This authority will be restored when the department receives a supplemental appropriation from the 2007 Legislature. The fire cost guru in the LFD is Barbara Smith; she can be reached at basmith@mt.gov or (406) 444-5347.

General fund update: 2007 biennium...Staff reported that, based on preliminary information, the general fund account could end the 2007 biennium with a potential balance of \$509.7 million, or \$281.1 million more than anticipated at the end of the December 2005 special session. The increased revenue is attributed primarily to higher than anticipated revenue growth in individual income taxes, corporate income tax, and oil and gas production taxes. For additional information, contact Terry Johnson at tjohnson@mt.gov or (406) 444-2952.

Public defender: costs/organization...A report on the new statewide public defender system was presented. The Montana Public Defender Act (SB 146 of the 2005 session) provided for this new system that becomes effective July 1, 2006. Two of the major changes effective that date are:

- Judges will no longer appoint an attorney to be the public defender for a case. Rather, the court will order the Office of Public Defender (OPD) to assign a public defender to the case.
- Financial responsibility for the costs of public defender services becomes the responsibility of a new executive branch agency rather than being paid by the judiciary, the Office of Court Administrator, or a local government.

The report identified the following issues for LFC consideration:

- It is likely that a supplemental appropriation request will be forwarded to the 2009 Legislature. The OPD currently estimates a 2007 biennium funding shortfall of about \$3.3 million. Additionally, the Public Defender Commission is in the process of determining the reimbursement amount that will be paid to attorneys who provide public defender services under contract. If a minimum rate or increase in the rate paid under contract is adopted by the Public Defender Commission, the amount of the projected costs overrun could increase. Additionally, the Office of Court Administrator is anticipating a \$3 million cost overrun in District Court Operations. Lastly, if all items requested by the OPD in the executive planning process are included in the executive budget and approved by the Legislature, the costs of the public defender system would increase to \$41 million for the 2009 biennium. During its study of the public defender system, the Law and Justice Interim Committee estimated the costs of the system after implementation would be

about \$27 million.

- While public defender services are exempt from the Montana Procurement Act (Title 18), the act does require that a competitive bidding process be used to award contracts. Currently available information raises questions about whether the process being used by the OPD is similar to the process envisioned by the Legislature as contained in the provisions of the act. The process envisioned by the OPD requires that attorneys wishing to contract with the OPD submit a survey or questionnaire, and the OPD will select from among those attorneys to enter into contractual agreements. It is unclear what criteria will be used to evaluate these responses, award contracts, and assign cases.

Other implementation concerns identified in the report include:

- To date the OPD has not published any administrative rules for the agency.
- The OPD intends to continue using the existing system that varies by county through FY 2007 while a needs assessment is completed. The OPD plans to select and implement a statewide and uniform case management system by the end of FY 2007. The chief information officer told the committee that the OPD information technology project was assigned a status of red by that office, indicating high risk and concerns related to the project.

The report also noted that it is expected that the LFC will receive a recommendation from the Law and Justice Interim Committee regarding adjustment of the county entitlement share as required by the act at a future date. For more information, contact Pat Gervais at pgervais@mt.gov or (406) 444-2986.

Community college funding recommendation... The Legislative Finance Committee approved a recommendation for a new funding formula to determine the level of state funding for Montana's three community colleges. The new formula, which was a recommendation coming out of an interim funding study conducted by the LFD (as directed by HB 2 in the 2005 legislative session), is intended to make the formula more transparent and better reflect the actual costs of education for the colleges. Under the old formula (known as the 3-factor funding formula), the cost of education factor had essentially lost relevance and no longer reflected the costs to educate Montana resident students at the community colleges. Therefore, the LFC unanimously approved a new formula that will rebase the cost of education factor and include a fixed cost vs. variable costs calculation. The cost of education factor, under the new formula, will be rebased for each biennial budget, rather than simply adjusted according to an inflation index, in an effort to keep the factor relevant and the formula transparent.

According to the funding study report, the new

funding formula does not influence the ultimate level of state funding for the community colleges, as the Legislature maintains full policy discretion over the state percent share factor, that level of the cost of education, stated in a percentage, that state government will fund in HB 2. The new formula requires a statute change in order to allow the addition of the fixed vs. variable costs calculation. The LFC will consider that bill draft request at its meeting in October.

The funding study reports are available on the LFC website, under the lists for the March and June 2006 reports. For more information, contact Alan Peura at apeura@mt.gov at (406) 444-5387.

Corrections Long Range Budget Solutions... The "bulldog group" assigned to consider correctional population long-term solutions met on June 7. The group discussed several ideas with Department of Corrections staff and determined that they would not make recommendations to the LFC until information regarding recommendations of the Corrections Advisory Council and its study subcommittee were received and reviewed. The bulldog group plans to forward its recommendations to the LFC in October 2006. For more information, contact Pat Gervais at pgervais@mt.gov or (406) 444-2986.

SB 495 Loan Repayment Options... With the substantial increase in prices and production of natural resources, royalties from mineral rights purchased by the Department of Natural Resources and Conservation (as allowed in SB 495 enacted by the 2001 legislature) from common school trust lands have also been increasing. It is estimated that the \$138.9 million of net mineral royalties that were purchased will be received over a 12-year period rather than the 30-year period originally estimated. This means the \$46.4 million borrowed by DNRC from the coal trust can be paid off sooner. The LFC considered various options for influencing the timing of the loan payoff, but decided on the option that allows a smaller general fund budget increase for schools once the SB 495 plan ends. The LFC requested DNRC to develop a phased-in reduction of net distributions to the guarantee account by varying the loan repayment so that the final payment is less than \$2.0 million, thus reducing the general fund budgetary impact in fiscal year 2014. For more information, contact Roger Lloyd at rlloyd@mt.gov or at (406) 444-5385.

EDUCATION AND LOCAL GOVERNMENT COMMITTEE

The Education and Local Government Interim Committee lived up to its name during its meeting held on June 12 and 13, exploring a number of education and local government-related agenda items, including whether education and local government should continue its subject-matter marriage or file for divorce. The committee's two subcommittees--Local Government and Postsecondary Education Policy and Budget (PEPB)--convened on June 12.

Local Government subcommittee reviews fire and land use policies...Fire and land use planning dominated the Local Government subcommittee's agenda. Brett Waters, the chief of the Belgrade-area Central Valley Fire District, approached the subcommittee about possible changes to municipal fire department statutes. Section 7-33-4101, MCA, allows only cities and towns of the third class¹ to augment their paid fire departments with contract fire protection services or to consolidate with another fire protection provider, such as a volunteer fire department. In addition, section 7-33-4109, MCA, provides that cities of the second class may supplement their paid fire departments with volunteer fire departments. Cities of the first class may not supplement fire protection services with a volunteer or contract fire protection entity.

Waters said that as a city grows, it loses its flexibility to combine resources as it sees fit to provide the best quality fire protection in the most cost-effective manner. Alec Hansen, executive director of the League of Cities and Towns, cautioned the subcommittee that eliminating the requirement that cities of the first class have only paid fire departments would likely be controversial. He offered to work with Waters on a solution that could preserve flexibility for fire protection services without completely eliminating the paid department requirement for cities of the first class. The topic will be revisited at the subcommittee's August meeting.

EQC refers part of HJR 10 fire study to committee...The subcommittee also considered two issues from the HJR 10 study of fire statutes and policy that the Environmental Quality Council formally referred to ELG: the wildland-urban interface and authority of local government fire chiefs. The HJR 10 work group asked EQC at its May 18 meeting to refer the two items, since EQC operates under an accelerated schedule to accommodate its public comment period and the work group wanted more time to develop proposals. DNRC staff presented information about the WUI and the differences in fire suppression between the WUI and wildland areas. Subcommittee staff presented three draft bills specific to the WUI that arose from the HJR 10 work group's early June meeting--one of which all of the work group members supported; the other two representing initiatives that individual members wanted to pursue with the subcommittee. The subcommittee made no decisions on the drafts and will consider them again in August. Staff will also prepare a draft bill that prescribes powers and duties of local government fire chiefs for the subcommittee's consideration.

Subcommittee reviews land use...Members of the SJR 11 work group reported on the group's progress in revising land use statutes and policies, including annexation, zoning, and subdivision. Prior to the meeting, subcommittee members received a draft bill that incorporated changes most of the work group members had agreed to; however, many of the work group participants noted that they still

needed to discuss the changes with their constituencies and hesitated to call the draft a "consensus" bill at this point. There are also a number of items that have not been agreed upon, but the work group intends to meet twice before the

subcommittee's final meeting to discuss them and determine if consensus can be reached.

ELG hears from subcommittees, reviews legislative initiatives...Reports from the subcommittees, presentations on 2007 legislative initiatives, and K-12 education funding constituted most of ELG's June 13 agenda.

Legislative proposals...Members learned what they might expect in 2007 from the Montana Association of Counties (MACo), the Montana League of Cities and Towns, the Office of Public Instruction, the Board of Public Education, the Montana School for the Deaf and Blind, and the Montana State Library.

MACo asked the committee to request a bill that would require a study during the 2007-08 interim on the myriad local government special districts located in Title 7 of the MCA. Authority exists in Title 7 for creation, alteration, and dissolution of dozens of special districts, including sewer districts, hospital districts, weed control districts, television districts, road districts, and rodent control districts, to name just a few. The processes for creating, altering, and dissolving the districts and the statutory authority of the districts are all over the map, and MACo is interested in a thorough examination and, where possible, standardization of those processes. Members commented that such a study appeared to be an enormous task that could easily get off-track unless specific limits are incorporated in the legislation that authorizes the study. ELG chair, Sen. Jeff Mangan, asked Sen. Bob Hawks and Sen. Bob Story to work with MACo on refining the proposal.

Quality education group files court documents...Bruce Messinger and Tom Cotton, representatives of the Montana Quality Education Coalition, told the committee that they had earlier in the day filed with the First Judicial District Court a Plaintiff's Motion for Supplemental Relief and an Order to Show Cause following adjournment of the 2007 Legislature, a Memorandum in Support of the Motion, and an Affidavit with attachments. The Memorandum states that although the state has made progress, "the Legislature has not satisfied its constitutional responsibilities concerning funding for public elementary and secondary education...[nor has it]...determined the costs of providing a basic system of free quality public elementary and secondary public schools." If these and other requirements are not complied with during the 2007 session, the Memorandum provides, a Show Cause Hearing is requested of the Court. Cotton and Messinger stressed to the committee that MQEC wants to work with the Legislature to achieve the desired outcomes and that a collaborative process would best serve everyone involved. Mangan echoed that sentiment and asked that time on the committee's August agenda be dedicated to MQEC and K-12

¹ Classification of cities and towns is based on population, pursuant to section 7-1-4111, MCA.

funding.

Judge Judy to the rescue?...Finally, ELG discussed its own organizational structure and whether the marriage of education and local government--instituted in 1999 to reflect the link between the two that the property tax represented--was still appropriate. Those who expressed an opinion agreed that the breadth and complexity of policy involving K-12 and postsecondary education may warrant a separate interim committee and, likewise, that issues surrounding local government are only becoming more numerous and complex. Some members of the Local Government subcommittee also commented that they do not want to see local government policy pushed aside in the face of increasing attention to education funding and policy. Members agreed that there may be more overlap among local government and transportation and discussed the possibility of creating a Local Government and Transportation Interim Committee (LGT or perhaps LGTIC for those fans of the acronym), moving transportation from where it currently resides, with the Revenue and Transportation Interim Committee. While members favor the change, ELG stopped short of requesting a bill to effectuate it or recommending that the Legislative Council take such an action, opting instead to wait until RTIC weighs in.

Last meeting of the interim in August...The final meetings of the 2005-06 interim are scheduled for August 17-18. The subcommittees will meet both days during the morning and the full committee will hear subcommittee reports and make final decisions both days during the afternoon. For more information about ELG or the Local Government subcommittee, contact Leanne Kurtz, committee staff, at 444-3593 or lekurtz@mt.gov. For more information about PEPB, contact Alan Peura, PEPB staff, at 444-5387 or apeura@mt.gov.

ENVIRONMENTAL QUALITY COUNCIL

EQC, subcommittees meet in July...The Environmental Quality Council and its subcommittees will meet July 17-18 in Helena. The subcommittees will consider the public input and make final recommendations to the EQC. The reports are available at http://leg.state.mt.us/css/lepo/2005_2006/.

The EQC meets July 18. For more information please visit http://leg.state.mt.us/css/lepo/2005_2006/ or contact Todd Everts at (406) 444-3747 or teverts@mt.gov.

CHILDREN, FAMILIES, HEALTH, AND HUMAN SERVICES COMMITTEE

Final meeting rescheduled...The Children, Families, Health, and Human Services Interim Committee has rescheduled its final meeting from Aug. 18 to Sept. 14 and

15. The committee will conclude its two studies on mental health crisis response and child protective services and make its final recommendations.

Committee considers recommendations...The committee has targeted the following areas to report to the Legislature: crisis stabilization and community commitment options; mental health parity; suicide prevention; soft transportation options; legislation supporting grandparents raising grand-children, including educational and health care affidavits; a revision of the child protection statutes; a proposal for a interdivisional consumer response unit at the Department of Health and Human Services; and legislation on including the "gravely disabled" in the mental illness commitment statutes. Refined copies of the bill drafts should be available by mid-August.

DPHHS legislative proposals and legislative pre-view from interested persons...DPHHS will present its 2007 legislative proposals for committee review, and the committee will decide on which proposals to request on behalf of the department. There will also be an opportunity for interested persons to inform the members of their upcoming legislative agendas. An agenda and meeting materials will be posted by the end of August.

Ways to Participate...Anyone wishing to participate is invited to contact Susan Byorth Fox at (406) 444-3597 or sfox@mt.gov. Persons wishing to be on the interested persons list may subscribe for electronic notices at the committee website or contact Fong Hom at (406) 444-0502 to be placed on the hard copy mailing list.

Helping working families succeed...Sen John Cobb, Rep. Mary Caferro, Sen. Jerry O'Neil, Rep. Bill Warden, and Rep. Christine Kaufmann and two staff members recently attended an National Conference of State Legislatures forum on Helping Working Families Succeed. This is a continuation of efforts from a conference last fall in Chicago and an NCSL Forum held in Helena in January. The group will be gathering additional information on the earned income tax credit and outreach, alternatives to high interest loans, asset development, and financial literacy efforts. The group will also be developing recommendations on legislative priorities for the budget. The group gathered many new resources and contacts to assist the Legislature in the future. For more information visit the Children and Families Interim Committee webpage or contact Susan Byorth Fox, research analyst, at (406) 444-3597 or Marilyn Daumiller, associate fiscal analyst, at (406) 444-5386.

LEGISLATIVE COUNCIL

Council acts on several items...At its June 5 meeting, the Legislative Council:

- consulted with the Department of Natural Resources

and Conservation and Department of Corrections on two proposed property sales in Miles City;

- approved for drafting legislation proposed by the Office of Budget and Program Planning for introduction in the 2007 session;
- received a report on the executive branch's policy regarding responses to legislative information requests and an update on general fund revenue;
- approved several suggestions for improving the fiscal note process developed by the Fiscal Note work group (see below);
- requested that legislation be drafted for council sponsorship to revise laws governing the Legislature to address third-party legislators, revise travel reimbursement provisions for legislators, revise the deadline for submission of the legislative budget, provide a PERS exemption for legislative session staff, and gender neutralize and conform code language to the bill drafting manual. The Council also authorized the drafting of the code commissioner bill and 2007 legislative feed bill.
- approved several 2009 biennium budget proposals for further discussion during the September meeting. The proposals deal with legislator participation in the activities of the Legislative Council on River Governance, Pacific Northwest Economic Region, National Conference of State Legislatures, and Council of State Governments, payment of CSG dues, staff training relating to legislative redistricting, increasing legislator participation in the interim committee process by creating a new interim committee and increasing membership on existing committees, and establishing a public information officer position for the legislative branch.
- preliminarily approved the 2009 biennium legislative branch information technology budget as proposed by the Legislative Branch Computer System Planning Council; and
- adopted a broadband pay plan for the legislative branch, subject to the concurrence of the Legislative Finance and Audit committees.

Fiscal note work group findings...The findings of the fiscal note work group were presented to the Legislative Council by Rep. Michael Lange. Eighteen of 25 options identified by the work group were accepted by the council members. Some options are fairly minor changes, others more dramatic. Accepted options include process changes, format changes, and content changes, all intended to assist the fiscal note reader to better understand the information presented, but also to address the concerns and comments of legislators as provided in the fiscal note survey responses.

The most dramatic change would have transferred the fiscal note function from the governor's budget office to the legislative branch. The council did not adopt this recommendation because of a high price tag and because the various agencies would still provide the information needed to prepare the fiscal notes. All of the options are described in the final report. The report as well as a summary of the council's decisions are available on the on the Legislative Council website at http://leg.mt.gov/css/committees/administration/2005_2006/leg_council/workgroup/fiscalnotewkgrp.asp. For more information or for a copy of the final findings and decisions, contact Jon Moe at jonmoe@mt.gov or at (406) 444-4581.

Council adopts session-related dates...The council adopted the following dates for party caucuses, new legislator orientation, and legislator continuing education:

Activity/Event	Date
General election	Tuesday, Nov. 7, 2006
Senate caucuses	Monday, Nov. 27, 2006 (noon)
House caucuses	Monday, Nov. 27, 2006 (noon)
New Legislator Orientation	Tuesday, Nov. 28, 2006 (all day) Wednesday, Nov. 29, 2006 (all day)
Committee chair training	Monday, December 11, 2006 (morning)*
Start of legislative session	Wednesday, Jan. 3, 2007 (noon)
Legislative Rules Training/Civic Education Presentation	Wednesday, Jan. 3, 2007 (afternoon)
Law School for Legislators	Thursday, Jan. 4, 2007 (morning)

Lois Menzies leaves legislative branch for new position...After 15 years of service with the Montana Legislature, Lois Menzies has resigned as executive director of the Legislative Services Division and accepted the position of court administrator for the Montana Supreme Court. Menzies worked as a legislative researcher for 10 years (1980 – 1990) and as executive director for 5 years (2000 – 2006). "Working for the Legislature has been rewarding," Menzies said. "I'm grateful for the opportunity to have served the branch." The Legislative Council will meet in late June to fill her position.

Next meeting in September...The council's next business meeting is tentatively scheduled for September 15

in Helena.

MONTANA LEGISLATIVE REFERENCE CENTER

Google-eyed on the searching trail...When you're sitting at the computer and you need some general information, what Internet search engine will you turn to first? If you're like most people you go to google.com. But how much do you actually know about this popular search engine?

Google was developed in 1998 by Sergey Brin and Larry Page, two Stanford computer science Ph.D. students who were dissatisfied with existing search engines. The existing search engines returned too many irrelevant results and the ranking of results was also easily manipulated by webmasters.

Google is one of the most popular sites on the Internet. Nielsen Net Ratings tracks search behavior of over 1 million representative users every month. In March 2006, Nielsen reported that Google was used the most among search engines (48% of the time), followed distantly by Yahoo (22%) and MSN (11%). (http://www.nielsen-netratings.com/pr/pr_060302.pdf)

How Google works--text analysis and PageRank...Google looks at your search terms within the context of the webpage in which they appear and considers the following when ranking search results:

- All of your search terms must appear somewhere in the document, unless you specified otherwise.
- The proximity of search terms, e.g., how often do the search terms appear and how close together are they?
- Search terms in bold text, in header text, in a larger font size relative to the rest of the page will rank higher.
- Hyperlinks at site - Google also looks at the content of neighboring webpages to see if those pages are on the same topic.

Text analysis is then combined with PageRank. This is a constantly adjusted algorithm that determines both the popularity and quality of any given webpage. Each page is given a rank based on the number and quality of the pages that link to it. For example a paper is considered more important and groundbreaking if a lot of authors cite to it.)

Indexing the web...Why is it so important to index the Web frequently? According to a *Journal of Information Science* article (Oct. 6, 2005), an estimated 320 million new pages are added to the Web every week. About 20% of today's webpages will disappear within the year. About 50% of the content of webpages will change within a year. About

80% of all links will change or be new within a year's time. Luckily, Google is keeping up nicely. Eighty-three percent of Google results were not more than a day old. Much better than MSN (48%) or Yahoo (42%). On average, a page is re-indexed by Google every 3 days.

Basic search features...Google lets you choose between the basic search screen or the advanced search screen. You can pretty much do the exact same searches from either screen. The advantage of the advanced search screen is that you don't have to remember all your search options; simply fill in the boxes and select from drop down menus.

- Google is NOT case sensitive--NeXT is searched the same as Next or next. Google ignores most punctuation. Hyphenated words (e.g., e-mail) are searched both with and without hyphen.
- A space is an assumed "and". Don't type AND!
- Common words, single digits and letters are not searched ("stop words"). Place a plus sign (+) in front of a stop word to search it or use quotes: +Z corporation ; "Z Corporation"
- The order in which you type your search terms affects how your results are ranked. Compare results for: grass snake and snake grass. The top hits for the first search are about the reptile, the second about horsetail grass. (search example from Joe Barker's excellent class, Extreme Googling 2005, http://www.infopeople.org/training/past/2005/extr_googling/)
- To force Google to search your terms exactly as entered, use quotation marks. You can also use quotation marks for common words that would otherwise be ignored, e.g. "to be or not to be", "university of california" (the latter search will avoid picking up California state universities).
- Use OR to search synonyms (e.g., Barrister OR attorney OR lawyer).
- The tilde (~) also searches for synonyms (e.g., ~attorney also pulls up legal, lawyer, law, etc).
- A minus sign excludes words (e.g., rico -puerto).
- Google searches only first 10 words of query; anything else is ignored.
- Google automatically searches for variations of your search terms ("stemming"). You type in "library", Google will also search for "libraries". However, your exact term ("library") will generally rank higher in search results.
- Proximity searching. You can't (yet) tell Google that

your search terms should appear within a couple words of each other. You can use an asterisk (*) within a phrase search as a wild card to match any word in that position. For example, to find San Diego libraries when you don't know if they will be called San Diego "public" libraries or San Diego "county" libraries, search "san diego * library".

- Caching. Google saves a copy of all pages it indexes. This is useful when the actual webpage has disappeared. It only stores the page as it appeared when it was last indexed. The cached copy also highlights your search terms. For historical versions of a webpage, check out the Internet Archive (<http://www.archive.org>).

Google has many advanced search features to improve search results.

- Operators: Use operators in conjunction with your search terms. Here are a few favorites. A full list of operators is available at: <http://www.google.com/help/operators.html>.
 - definitions: Google's built-in dictionary will pull dictionary, glossary and encyclopedia definitions of your specified term (define:carpe diem).
 - filetype: Searches only file format you specify. Google can search 13 different file types in addition to .html, including .pdf, .rtf, .xls, .doc, and .ppt. To search for PowerPoint presentations on the subject of Google, type: filetype:ppt google (see http://www.google.com/help/faq_filetypes.html for the full list of file types indexed).
 - link: Shows webpages that link to your specified page. Great way to track who links to your pages (e.g., link:mofo.com).
 - phonebook: Looks up phone number for a business or person. Type in name of person or business and city or zip code (e.g., phonebook:new york pizza and italian deli san diego phonebook:bill smith escondido phonebook:chessler 98040)
 - related: Shows webpages that are similar to your specified page (e.g., related:boeing.com).
 - site: Restricts your search to specified website or domain. This is a great tool if a website is hard to navigate or does not have its own search engine (e.g., site:irs.gov community property states; site:lasuperiorcourt.org "motion to strike"; northern spotted owl site:edu).
- Calculator: Google has a built-in calculator function. Complete instructions are at <http://www.google.com/help/calculator.html>. Great for unit and currency conversions and any arithmetic function (12 kilometers in miles; 18 Celsius in Fahrenheit; 100 kph in mph; 5+2*3; half a cup in teaspoons; square root of 36, 1 dollar in British pounds).
- Number searches: Google offers a fast way to search specialized numbers, such as U.S. patent numbers, telephone area codes, Vehicle Identification Numbers (VINs), FedEx and UPS parcel tracking IDs, and more. See <http://www.google.com/help/features.html#number> for the full list and search examples.
- Language tools: Google will automatically translate many webpages in foreign languages into English. Currently Google will translate Chinese (Simplified), French, German, Italian, Korean, Japanese, Spanish, and Portuguese. The translation is done by computer without human intervention. Results are generally satisfactory, if not always elegant. If a translation is available, you will see a link to the translation from your initial search results page. (http://www.google.com/help/faq_translation.html for more information). To translate small portions of text to and from English, Chinese (Simplified), French, German, Italian, Korean, Japanese, Spanish, and Portuguese, go to Google's Language Tools page (http://www.google.com/language_tools?hl=en). You can also type in a webpage and have it translated for you. Any text that appears in graphics will not be translated.

Google images...Google has pulled billions of images from Web space and made them searchable. Click on the Images tab from the Basic search screen or go to: <http://images.google.com> Images will be presented thumbnail size for ease of viewing, but you can always enlarge the picture and see the picture as it appears within its original document. How does Google do it? "Google analyzes the text on the page adjacent to the image, the image caption and dozens of other factors to determine the image content. Google also uses sophisticated algorithms to remove duplicates and ensure that the highest quality images are presented first in your results." (http://images.google.com/help/faq_images.html)

Google news...Search a month's worth of news articles from 4,500 sources that are updated continuously. No human editors organize the news; it is entirely computer generated. Use free Alerts service to track news on topic of your choice. Access News by clicking on the "News" tab at Google's main search screen or go directly to: <http://news.google.com>.

Google maps (launched 2/8/05)...View maps and get

directions. Zoom in and out. View maps in satellite or street format, or a hybrid. Search by address, city, business name, business type. Access at: <http://maps.google.com>

Google blog search (launched 9/13/05)...Searches blogs (ubiquitous, self published "Internet diaries"). Google checks blogs frequently for new content. If there is a blog that is completely devoted to your subject matter, it will be listed separately at the top of your search results. Access blogs at <http://blogsearch.google.com> or <http://search.blogger.com>. Search example: FOIA

Google print (launched 11/3/05)...Search the full text of books, then see your search words in context. If the book is copyrighted, you'll only see a few sentences, paragraph, or few pages containing your search terms. If it's publicly available without restriction, you can view the entire book. Books are provided to Google for scanning by publishers and libraries. Google Print is still in beta; more and more books are being added to the database. See press release: http://www.google.com/press/pressrel/print_publicdomain.html. Access at: <http://print.google.com>. Search example: unobviousness patent litigation

Google scholar (launched 3/2/06)...Search for scholarly journal articles, theses, books and abstracts. Related articles are grouped together, and you can link to a list of articles that cite to your article (very cool!). If the full text of an article is available on the Web, there will be a link to it. If known, Google will tell you which libraries have a copy of the article and/or will provide a link to British Library Direct if you want to purchase a copy of the article. Access at <http://scholar.google.com>. Help pages are available at <http://scholar.google.com/scholar/help.htm>. Search example: colloidal gold marker

Google finance (launched 3/21/06)...Google introduced Google Finance to compete with Yahoo's popular Finance site. Google offers more interactive stock quotes, faster access to news stories affecting a company's stock price, profiles and photos of top executives, and links to blogs on the company. Google purchases its financial data

from third parties, including Hoover's, Interactive Data, Reuters, and Morningstar. Google Finance is available at <http://finance.google.com>. Search example: goog (ticker symbol for Google).

What Google can't find and what to do about it...A significant percentage of the Web is not indexed, either because sites are behind firewalls or require passwords or the information is contained in databases that a search engine cannot index. It's estimated that about 5% of the Internet just isn't accessible, so it can't be indexed. (See <http://searchenginewatch.com/searchday/article.php/2159121>).

Sometimes the webpage is up for such a short time that a search engine doesn't have time to index it. Sometimes a search engine just misses a site entirely.

To be more comprehensive, try your search in any other search engine. There is not as much overlap as you would think. (some other search engines: <http://www.yahoo.com>, <http://www.alltheweb.com>, <http://www.dogpile.com>)

For defunct webpages, try the Internet Archive (<http://www.archive.org>). For defunct government agencies, also try CyberCemetery (<http://govinfo.library.unt.edu/default.htm>).

You can also search subject-specific databases, directories and search engines. Examples include Daypop, Ingenta, Highbeam Research, Hoover's, Libdex, Infomine, Pubmed, Topica, InfoRetrieve Article Finder. For finding people, try ZoomInfo (<http://www.zoominfo.com>).

You can also add words like "faq" "database" "directory" "expert" "pathfinder" "review" to your search terms to find specialized directories and databases on your topic (e.g., health care database: <http://marylaine.com/exlibris/xlib94.html>)

For more information on using Google, or other research strategies, please contact Lisa Mecklenberg Jackson, legislative librarian, at Ljackson@mt.gov or (406) 444-2957.

THE BACK PAGE

LITTLE REPOSE IN PUBLIC RETIREMENT

By Dave Bohyer
Director, Office of Research and Policy Analysis

INTRODUCTION

In 2005, the Public Employees Retirement Administration (PERA) and the Teachers' Retirement System (TRS) informed legislators that four retirement plans--Public Employees; Teachers; Sheriffs; and Game Wardens and Peace Officers--faced combined actuarially accrued unfunded liabilities (UAL) of between \$1.2 billion and \$1.4 billion--and yes, that is with a "B". Deferring to the possibility that investment returns in excess of actuarially anticipated returns could help to mitigate the liability in 2005, legislators commissioned a study of the retirement systems and requested the study committee to make recommendations to resolve the underfunding problems.

Continuing from where the 59th Legislature left off in April 2005, the State Administration and Veterans' Affairs Interim Committee has continued to examine the four retirement plans in which there are unsustainable unfunded liabilities. Committee members have considered the causes of the UALs as well as various options to alleviate the UAL problems, ranging from increasing contributions to the plans to reducing plan benefits to closing the existing defined benefit plans and replacing them with defined contribution plans. This month's Back Page presents a useful perspective by listing some of the major components of Montana's Public Employee Retirement System (PERS) defined benefit plan and comparing the components of PERS to similar systems in other western states.

ACCOUNTABILITY

The first step to resolving the untenable UAL issues is to ensure that whatever caused them in the first place isn't repeated. However, in order to ensure that step, it is necessary to find out what went wrong. The short of it is that the confluence of policy changes and the implosion of the equity markets (due mostly to the bursting of the Internet/technology bubble, but also to events of September 11, 2001 and to various corporate scandals) were the core factors that created the UALs. No single individual or entity was responsible for the unprecedented decline in the financial health of the retirement systems. Other than Alan Greenspan and maybe a few others, not many anticipated the precipitous decline in the equity markets when, by October 2003, the meaning of "irrational exuberance" came to be understood by common folks nurturing a nest egg in an account known as a 401(k), 403(b), 457, etc. The decline in the Standard and Poor 500 Index--some 40% from the top in early 2001 to the bottom in October 2003--was not anticipated, in either its depth or its duration.

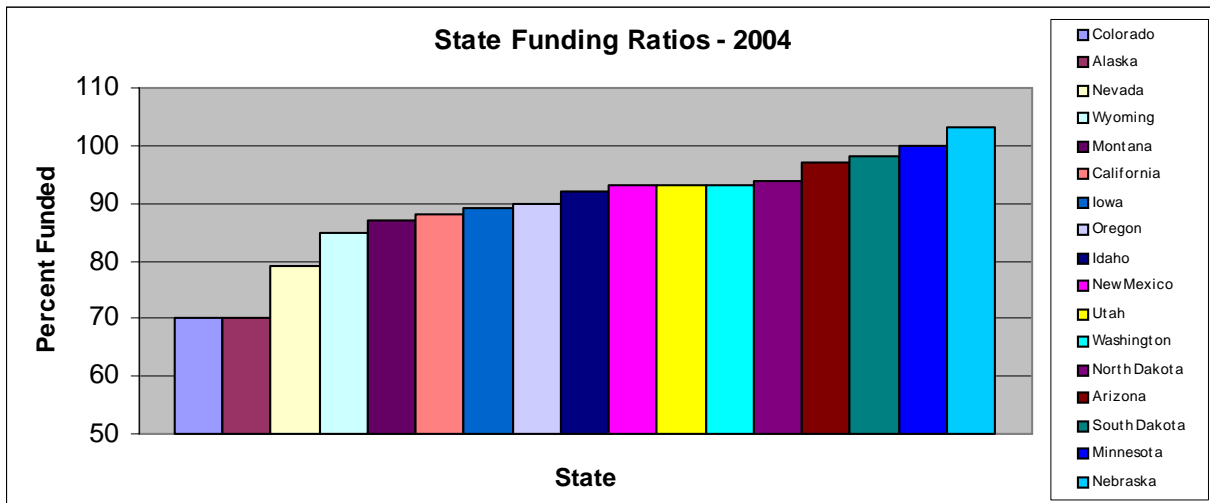
As for the policy changes: there were various participants, all of whom seemingly acted prudently given what was known at the time. The retirement boards and public employee representatives requested benefit enhancements that were affordable according to the actuarial analysis conducted. The investment board did not oppose the enhancements, the legislature overwhelmingly supported them, and two governors approved them. Hindsight might be instructive, but the challenges created by past actions persist and will continue to grow larger if not addressed sooner rather than later.

SYSTEM INGREDIENTS

The PERS is composed of many different elements: employer and employee contribution rates; benefit levels; post-retirement adjustments; actuarial assumptions, etc. Among the important components that affect the health of a retirement system are the employer and employee contributions to the system, the return on invested assets, and the benefits offered. Clearly, some components are more important than others, but none is completely irrelevant. The following narrative and graphics illustrate how several of the more influential components of Montana's PERS stack up against comparable components in other western states.

Funded Ratio: The funded ratio indicates the financial health of the retirement system. It is determined by dividing the actuarial assets of the retirement plan by the actuarial liabilities of the plan. A ratio of 100 indicates that the actuarial assets equal the actuarial liabilities, a very healthy state for a retirement plan. In every case, the higher the ratio is, the healthier the plan is, actuarially speaking. Figure 1 illustrates the relative health of retirement plans in the western states as indicated by the plans' funding ratios. (For each bar chart in this article, the bars going from left to right correspond to the states going from top to bottom.)

Figure 1



In most public employee retirement systems, the employer and employees contribute a percentage of earnings to the retirement plan. An actuary calculates the percentage of earnings needed to pay for the benefits promised in the plan--this rate is called the "normal cost"--and policy makers determine what proportions of the normal rate are to be borne, respectively, by the employer and employee. In Montana, the employer and employee each contribute 6.9% of the employee's pay. Other states require the employer and employee to contribute different proportions, and some states either don't require an employee to contribute to the retirement plan or the employer pays both the employer's and employee's shares to the plan. Figures 2A through 2C illustrate the contribution rates in the western states.

Figure 2A

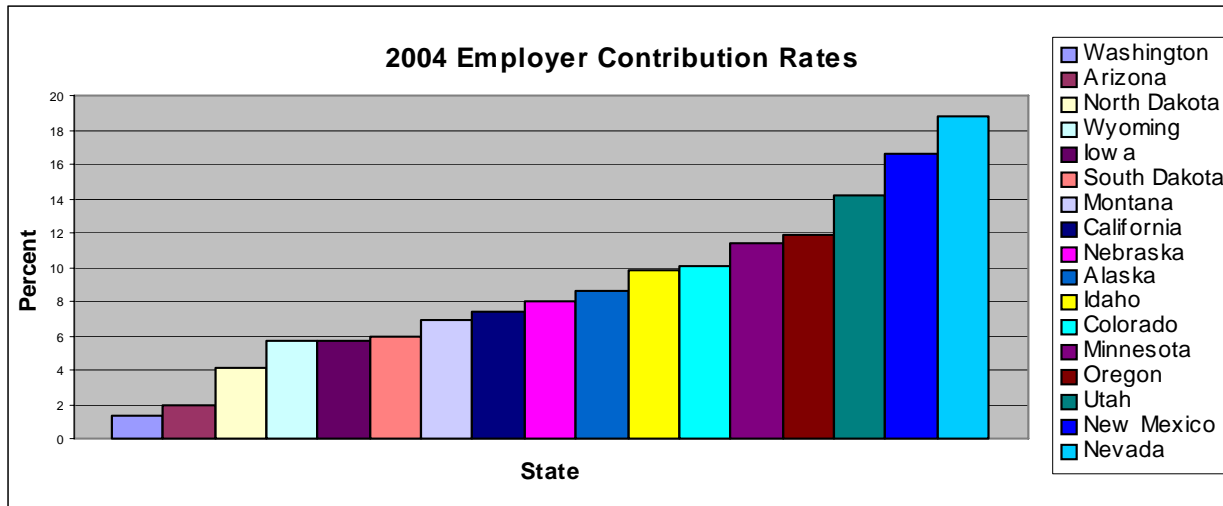


Figure 2B

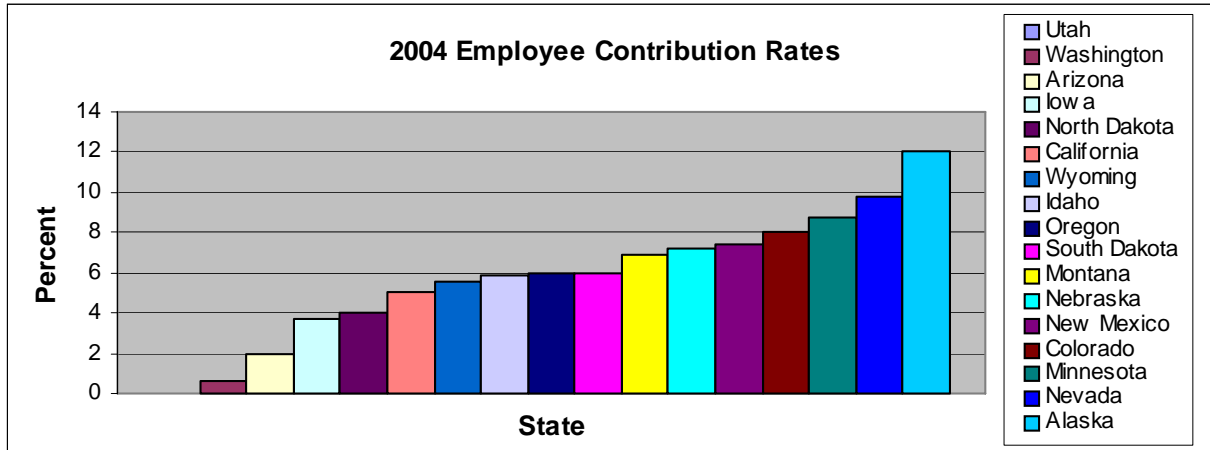
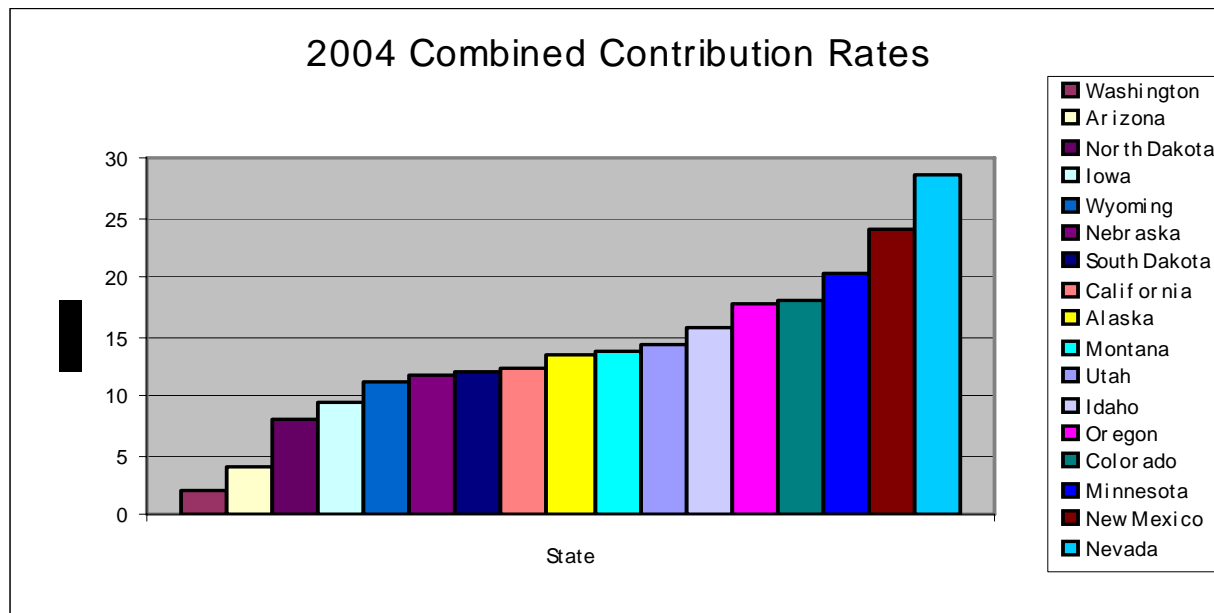


Figure 2C



Asset Allocation: Many investment professionals say that the most important consideration when investing for retirement, following the decision to invest for retirement, is to diversify by allocating investable assets across various asset classes to promote conservation of capital without unduly harming returns and to maximize return on invested assets without bearing undue risk. Table 1 shows how western states had allocated their respective pension funds across asset classes in 2003.

State	Table 1: 2003 PERS Asset Allocation (% of Total Assets)							Expected Return %
	US Equity	Non-US Equity	US Bond	Non-US Bond	Real Estate	Private Equity	Other	
Alaska	42.3	17.5	29.5	3.7	7	0	0	6.64
Arizona	57.1	16.5	26.4	0	0	0	0	7.19
California	40.6	19.1	23.7	3.5	8	5.1	0	7.5
Colorado	47.8	13.2	12.5	3	11.2	11.1	1.2	8.04
Idaho	43.4	25.8	27	1.2	0.5	2.1	0	7.27

State	Table 1: 2003 PERS Asset Allocation (% of Total Assets)							
	US Equity	Non-US Equity	US Bond	Non-US Bond	Real Estate	Private Equity	Other	Expected Return %
Iowa	29.7	15.4	41.8	1	6	6.1	0	7.04
Minnesota	47.7	14.4	24	0	0	13.9	0	7.89
Montana	48.8	8.4	37	0	0.3	5.6	0	7.12
Nebraska	49	14.2	36.8	0	0	0	0	6.88
Nevada	33.4	10.2	39	9.3	7.2	0.9	0	6.86
New Mexico	50	13.6	36.2	0	0.2	0	0	11.52
North Dakota	40.8	15.6	29.2	4.8	5.1	4.5	0	7.24
Oregon	39.5	18.9	21.3	4.5	4.8	11.1	0	7.95
South Dakota	46.7	16.9	26.1	0	6.2	4.1	0	7.45
Utah	37.5	16.9	23.8	5.7	9.6	6.5	0	7.5
Washington	33.3	14.4	28.5	0	9.4	14.4	0	7.87
Wyoming	43.6	12.2	44.2	0	0	0	0	6.65
17-State Avg	43.01	15.48	29.82	2.16	4.44	5.02	0.07	7.57
50-State Mean	42.71	13.31	33.61	1.21	4.16	4.68	0.32	7.17
50-State High	68.8	25.8	100	11	13.7	17.99	10.2	8.07
50-State Low	0	0	12.5	0	0	0	0	4.5
50-State Med.	43.5	14.4	31.1	0	3.09	3.9	0	7.18

Data taken from 2003 Wilshire Report on State Retirement Systems: Funding Levels and Asset Allocation; Wilshire Assoc., Inc.; March 12, 2004, pp. 21-22. Note: Not all states' systems for the majority of non-education employees are called "PERS" and states in italics--NE, CO, AK--do not provide Social Security coverage for state employees.

Vesting Periods: The vesting period for a retirement system is the period of time during which an employee must be an active member of the system in order to earn the benefits offered through the system. A shorter vesting period allows members easier access to benefits than does a longer vesting period. The vesting period can also be used to manage or mitigate the cost of a retirement system for several reasons, including that a longer vesting period ensures more contributions to the system over a longer period of time and that a system member typically does not have a right, upon withdrawal from the system, to the employer's contributions until the member becomes fully vested. The data in Table 2 illustrate the vesting periods, in years, in retirement systems in the western states.

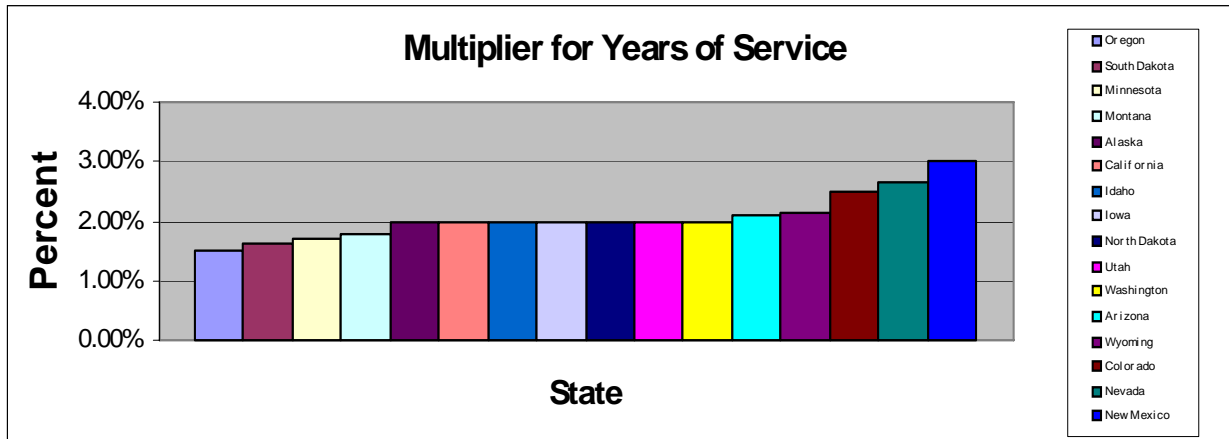
Table 2: Vesting Periods Among Western States' Retirement Systems

State	Vesting Period	State	Vesting Period	State	Vesting Period	State	Vesting Period
Montana	5	Iowa	4	Minnesota	3	Arizona	0
Idaho	5	Utah	4	South Dakota	3		
Washington	5	Wyoming	4	North Dakota	3		
Oregon	5						
Nevada	5						
Colorado	5						
Nebraska	5						
Alaska	5						
California	5						
New Mexico	5						

Multiplier for Years of Service: As one of the basic elements in the retirement benefit equation of most defined benefit plans, the multiplier for each year of service is critically important. A low-value multiplier provides a lower benefit than would a higher value multiplier, all else being equal. A low-value multiplier is also less costly to fund. The data in Figure 3 illustrate

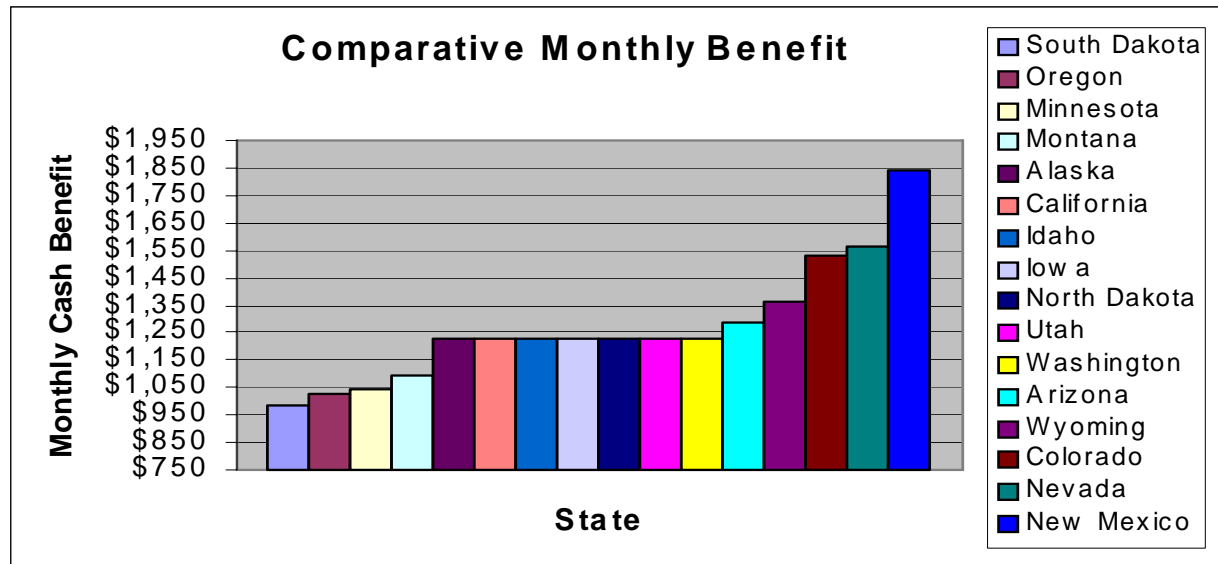
the range of the basic multiplier² applicable in the defined benefit formula of the retirement systems in the respective western states.

Figure 3



Cash Benefit in Retirement: Legislators, citizens, and all editorial writers, among others, frequently like to compare various statistics among western states to see where Montana shakes out. For this illustration, the primary assumptions are that on July 1, 2006, the assumed date of retirement, certain relevant factors regarding the representative retiree will reflect various averages of Montana PERS retirees in FY 2005. The assumptions and averages for the representative retiree are then applied to the respective retirement benefit formulas of the comparative states (Figure 4).³

Figure 4



Note: The comparative monthly benefit is based on: fully vested member; final average salary of \$37,855; 19.45 years of service; and full retirement benefits (no reduction for early retirement).

² The multiplier in a number of states' formulas changes as the term of service grows longer. In Montana, for example, the multiplier increases from 1.785% to 2% when an employee reaches the 25-year threshold; in Wyoming, the multiplier increases from 2.125% for the first 15 years to 2.25% for additional years over 15; in Iowa, it declines from 2% for the first 30 years to 1% for additional years over 30.

³ The averages used as the basic assumptions are that the retiree: (1) will be fully vested in the retirement system; (2) will have accumulated 19.45 years of service in the retirement system; (3) is eligible for a full retirement benefit; and (4) will have established a final average salary of \$37,855. As used here, "full retirement benefit" means that the benefit is not reduced for early retirement or for any other reason.

The Relative Status of Montana PERS Among Western States: Among the 17 western states reviewed, Montana's PERS ranks as follows:

- 5th lowest funding ratio (87%) in FY 2004. Twelve states had retirement systems that were financially healthier in actuarial terms and four states were less financially sound. Colorado and Alaska tied for the lowest funding ratio (70%) and Nebraska the highest (103%).
- 7th lowest employer contribution rate (6.9%) in 2002. Ten states had retirement systems to which the employer contributed more than 6.9%; in six states the employer contributed less than 6.9%. The lowest employer rate was 1.32% (Washington) and the highest was 18.75% (Nevada).
- 7th highest employee contribution rate (6.9%) in 2002. Ten states had systems to which the employee contributed less than 6.9%; in five states, the employee contributed more than 6.9%. The lowest employee contribution rate was 0% (Utah) and the highest was 9.75% (Nevada).
- 8th highest combined employer-employee contribution rate (13.8%). The lowest combined rate was 1.97% (Washington) and the highest was 28.5% (Nevada).
- 7th lowest expected rate of return (7.12%) on invested pension assets. Alaska had the lowest expected rate of return (6.64%) and New Mexico the highest (11.52%).
- tied with nine other states in which the vesting period is 5 years. None of the western states has a longer vesting period, three have a 4-year vesting; three a 3-year vesting, and in Arizona, an employee vests immediately.
- 4th lowest "multiplier" (1.785%) to determine the pension benefit. Three states had a lower multiplier and 13 states had a higher multiplier. Oregon had the lowest multiplier (1.5%) and New Mexico had the highest (3%).
- 4th lowest monthly benefit (\$1,096) in 2005 when the final average salary is set at \$37,855 and the total years of service equals 19.45 years, which were the actual FAS and YOS in the Montana PERS in 2005. Under the respective states' retirement benefit formulas, South Dakota would have the lowest benefit (\$988) and New Mexico the highest (\$1,841).

OPTIONS FOR STRENGTHENING THE ACTUARIAL HEALTH OF MONTANA PERS

A number of options exist that can help to improve the financial strength of the Montana PERS. Of course a slim possibility exists that the rate of return on invested pension assets will significantly exceed the 8% return assumed for actuarial purposes for years to come, but there is virtually nothing the Legislature can do to ensure or even foster that possibility happening. However, the Legislature can pursue any of a variety of other options to strengthen the PERS through legislative action, including:

- appropriating sufficient funds directly into the PERS to reduce the unfunded actuarial liability to a term of less than 30 years or eliminate the UAL completely.
- gradually paying down the UAL with periodic infusions of appropriated funds.
- increasing the employer contribution rate. (Legal precedent suggests that the employee contribution rate can also be increased, but only if benefits are also increased commensurately.)
- any combination of immediate appropriations, periodic infusions (also through appropriations), and increased employer contributions.

OPTIONS TO LIMIT THE STATE'S FUTURE LIABILITY FOR PUBLIC RETIREMENT

In addition to, or perhaps aside from the options to strengthen the PERS, the Legislature could take alternative measures to change the PERS (but that would not affect the existing unfunded actuarial liability in PERS). The alternative measures might include but are not limited to:

- closing the existing PERS to future employees and establishing a "new" PERS that would still provide a defined benefit but with fewer benefits to PERS members.
 - closing the existing PERS to future employees and establishing a new PERS that would not provide a defined benefit but would provide, instead, a defined contribution. This option would be akin to the well-known 401(k) and 403(b) retirement plans that have gained momentum over the past 15-20 years, particularly in the private sector.
-

- issuing "pension obligation bonds" (POB), the proceeds of which would be deposited to the credit of the PERS and invested immediately. This option is somewhat similar to obtaining a conventional home mortgage. With a conventional mortgage, the borrower takes possession of the asset (the home) and agrees to pay off the debt, including interest, over a fixed period of time at a fixed periodic rate of payment. With POBs, the state would issue general obligation bonds to obtain capital (investable as pension assets) and agree to pay off the debt over a fixed period of time at a fixed rate. Under this option, the state's liability for the POB is a fixed, known amount for which the legislature can budget prospectively. There are some obvious and some hidden pros and cons regarding POBs, but those are beyond the scope of this article.

CONCLUSION

The actuarial health of Montana's Public Employees' Retirement System suffered declines during the first years of this decade. The status of PERS's finances continue to present challenges to PERS administrators, pension asset investment managers, and state policymakers.

Comparative statistics regarding various components of western states' retirement systems show that Montana's PERS is not totally out of whack, comparatively speaking. However, Montana policymakers face challenges within PERS that can most likely be addressed with less angst if done sooner rather than later. Some of the possible responses will directly affect the actuarial deficiencies identified within PERS. Other policy options won't directly affect existing challenges, but could significantly affect future liabilities for public employee retirement. Regardless of which options legislators advance during the 60th Legislative Session, it is likely that, for the short term at least, there will continue to be little if any repose in the Public Employees' Retirement System.

REFERENCES:

Ford, William; 2002 Comparative Study of Major Public Employee Retirement Systems; Wisconsin Legislative Council, December 2003.

Ford, William; 2004 Comparative Study of Major Public Employee Retirement Systems; Wisconsin Legislative Council, December 2005.

Nesbitt, Stephen L., 2003 Wilshire Report on State Retirement Systems: Funding Levels and Asset Allocation; Wilshire Assoc., Inc.; March 12, 2004

Bonafede, Julia K., Steven J. Foresti, Benjamin J. Yang; 2005 Wilshire Report on State Retirement Systems: Funding Levels and Asset Allocation, Wilshire Associates, Inc., March 10, 2005.



INTERIM CALENDAR

UNLESS OTHERWISE SPECIFIED, ALL ROOM DESIGNATIONS ARE IN THE CAPITOL

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
July 2006						1
2	3	4	5	6	7	8
9	10	11	12	13	14 Economic Affairs Committee, Room 102, 8:30 a.m.	15
16	17EQC subcom- mittees: Study subcom- mittee, Rm 102 HB 790 Study sub- committee, Rm 137 Agency Oversight subcomm., Rm 172	18 Environmental Quality Council, Room 102	19	20	21	22
23	24 State-Tribal Rela- tions Committee	25 State-Tribal Rela- tions Committee	26	27	28	29
30	31					

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
August 2006						
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16	17 PEPB subcom- mittee, 8 a.m. Local Government subcommittee Education and Local Government Com- mittee	18 PEPB subcom- mittee, 8 a.m. Local Government subcommittee Education and Local Government Com- mittee	19
20	21	22	23	24	25	26
27	28	29	30	31		

LEGISLATIVE SERVICES DIVISION
PO BOX 201706
HELENA MT 59620-1706